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MEMORANDUM FOR: THE RECORD

The attached memorandum was requested by Mr. James Libera, EUR/RPE, Department of State, for use by the US delegation in OECD meetings scheduled for 8 April in Paris. The material was daycomed to State on 1 April 1983.

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Chief
Trade Branch
Soviet Economy Division
Office of Soviet Analysis

Date 7 April 1983

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CONFIDENTIAL

1 April 1983

SUBJECT: SOVA Comments on the OECD's Revised East-West Trade Paper

1. The Office of Soviet Analysis has reviewed and is generally pleased with the revised OECD ministerial paper on East-West trade. Not only has the paper been considerably strengthened in the redrafting, it seems to represent a more balanced statement on the state of East-West trade. Perhaps the most obvious omission, however, is a continued lack of any extensive treatment of financial issues. As we noted in our 3 March memorandum, insufficient attention is given to the linkages between credit and trade policies. Finally, the statistical tabulations which accompany the text have not been available for review and thus are not addressed in this memorandum.

The following comments are keyed to individual paragraphs of the paper:

Para 3: In the discussion on the valuation of intra-CEMA trade, it should be noted that the USSR pays a premium price to Eastern Europe for the machinery it buys, while offering oil at a discount. Indeed, because the recent drop in the world price of oil is eliminating much of the oil subsidy to Eastern Europe, machinery pricing has become an even more important element in the valuation of trade, and this should be noted.

Para 29: The draft implies that the USSR has taken away most if not all of the incentive the smaller East European countries may have had to re-export refined Soviet oil to the West. While we do not quibble with the statement that this trade has shrunk, it is equally important to note that the East Europeans retain an incentive to export to the West because they would continue to derive income from refining and re-marketing Soviet oil. In any event, they will be likely to continue this trade as long as they receive hard currency for their sales to the West while paying the Soviets for the crude oil with goods they cannot sell in the West or substitute for imports from the West.

Para 33: Information available to us suggests that the USSR has offered additional supplies of up to "35" rather than "40" billion cubic meters of natural gas to the various West European countries. The draft also notes a number of claims that gas may have placed on it. Absent from the list, however, is the need to export gas for hard currency. We believe this option will have a very high priority.

Para 40: Change third sentence to read ". . . average grain production was 205 million tons and nearly 240 million tons has already been achieved in one record year."

Para 46: Change first sentence to read ". . . imports to some 20-30 million tons. . ."

Para 47: While we would agree that the present downturn is attributable in part to import policies introduced by the Eastern countries, it also is due in part to growing financial caution in the West.

Para 66: In addition to mentioning the present emphasis on modernization of existing capacity, the draft should also note the debate over the sufficiency of investment now going on in the USSR. In other words, the investment ratio could turn upward again.

Para 76: The draft mentions that, except for the USSR, the financial position of the Eastern countries deteriorated significantly between 1975 and 1982. Unfortunately, the improvement in the USSR's position largely results more from the choice of dates. (1975 was a bad year while 1980 was a good year.) Of course, since 1980 the Soviet financial position has also deteriorated.

Para 78: We believe the statement that the USSR's current account surplus can be maintained at about the 1982 level is probably erroneous, especially now that energy prices have declined. Even before prices started falling, our analysis indicated that the USSR would have to be very lucky to keep its current account from slipping--a judgment we still hold.